

Message Text

LIMITED OFFICIAL USE

PAGE 01 DACCA 03466 01 OF 02 160536Z

16

ACTION NEA-10

INFO OCT-01 EA-06 ISO-00 TRSE-00 IO-10 H-02 L-03 PRS-01

PA-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 AGR-05 /106 W

----- 070698

R 160315Z JUL 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 7439

INFO AMEMBASSY KATHMANDU

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 1 OF 2 DACCA 3466

STATE PASS AID

MANILA FOR USADB

EO 11652: N/A

TAGS: EFIN, EAID, BG

SUBJ: BANGLADESH BUDGET: ANALYSIS AND COMMENT

REF: (A) DACCA 3112 (B) DACCA 3385

SUMMARY: FY 76 BUDGET IS EXPANSIONARY, NOT INFLATIONARY, WITH URBAN MIDDLE CLASS AND SURPLUS FARMERS BENEFITTING MOST BY MODEST TAX DECISIONS ANNOUNCED. MAJOR DISAPPOINTMENT IS ABSENCE OF ANY MAJOR TAX CHANGES OR REMOVAL OF FOODGRAIN SUBSIDIES, MEASURES WHICH WOULD HAVE BEEN IN LINE WITH LETTER OF INTENT OF IMF. HOWEVER, FOOD-GRAIN SUBSIDIES MAY BE REMOVED IN THE COURSE OF YEAR, IF AMAN HARVEST SATISFACTORY. DEVELOPMENT EXPENDITURES DO NOT GROW IN REAL TERMS. BUDGET VERY CONSERVATIVELY ESTIMATES IMPORT AND EXCISE REVENUES AND AID FLOWS, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 DACCA 03466 01 OF 02 160536Z

HOWEVER, AND THESE COULD EXCEED ESTIMATES TO SUCH AN

EXTENT TO PERMIT A SHARP INCREASE IN ACTUAL DEVELOPMENT EXPENDITURES. DEFENSE SPENDING, AS A PROPORTION OF NON-DEVELOPMENT EXPENDITURES, IS SLIGHTLY DOWN FROM LAST YEAR. IN SUM, BUDGET DISAPPOINTING, BUT BDG MAY WELL ACHIEVE POSITIVE FISCAL RECORD OVER YEAR. SEPTEL REPORTS ON ANNUAL DEVELOPMENT PLAN. END SUMMARY.

1. EFFECT ON ECONOMY.

A. AS IN PAST, FY 76 BUDGET IS EXPANSIONARY, THANKS TO CONTINUED LARGE FOREIGN AID INFLOWS, BUT NOT INFLATIONARY, BECAUSE IT IS BALANCED, LIMITING DOMESTIC DEMAND AND MOST AID INFLOWS WILL CONSIST OF OR BE MATCHED BY GOODS.

B. ADJUSTING FOR EFFECT OF DEVALUATION BUT NOT INFLATION, DEVELOPMENT EXPENDITURES ARE TO INCREASE BY ABOUT 30 PERCENT. WHILE THERE IS NO RPT NO CLEAR STATEMENT OF PRICE LEVEL USED FOR THE 75/76 REVENUES AND EXPENDITURE ESTIMATES, LEVEL IS IMPLICITLY THAT OF MID-1975 (WHEN BUDGET PREPARED). IN MID-1975, WE ESTIMATE PRICE LEVEL STOOD ABOUT 50 PERCENT ABOVE CY 1974 AVERAGE.

ADJUSTING FOR EFFECT BOTH DOMESTIC AND FOREIGN DONOR PRICE INCREASES, ESTIMATE 75/76 DEVELOPMENT EXPENDITURES WOULD BE NO HIGHER IN REAL TERMS THAN FOR 74/75, AND, ON PER CAPITA BASIS, WOULD DOUBTLESS BE LOWER.

C. CONSIDERABLE STIMULUS TO ORGANIZED SECTOR WILL BE PROVIDED BY INCREASED FLOW OF IMPORTS PERMITTED BY AID FLOWS AND JULY-DECEMBER IMPORT POLICY (DACCA 3347).

D. WHO BENEFITS? GROUPS WHO BENEFIT MOST FROM THIS BUDGET ARE, FIRST, THE URBAN MIDDLE CLASS, AND SECOND THE SURPLUS FARMER. THE FORMER RECEIVED THE BENEFITS OF THE RELATIVELY MINOR TAX ADJUSTMENTS ANNOUNCED, WHILE THE LATTER SAW THE MORATORIUM OF AGRICULTURAL INCOME TAX EXTENDED FOR ANOTHER YEAR. (SEE PARA 2(D) BELOW.) NET EFFECT OF THE MINOR TAX CHANGES WILL BE REGRESSIVE, STRENGTHENING RELIANCE ON IMPORT AND EXCISE DUTIES, RATHER THAN THE MORE ELASTIC PERSONAL AND CORPORATE INCOME TAXES. MIDDLE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 DACCA 03466 01 OF 02 160536Z

CLASS TAX BENEFITS COME ON TOP OF RECENT IMPROVEMENT IN ALLOWANCES OF BDG EMPLOYEES AND CONTINUATION HEAVY SUBSIDIES ON FOODGRAIN RATION.

2. WHAT WASN'T ANNOUNCED.

A. EXPECTATIONS RAISED. AT JUNE 3,4 BANGLADESH AID GROUP MEETING, BOTH BDG DELEGATION LEADER AND IBRD CHAIRMAN FORECAST ANNOUNCEMENT OF IMPORTANT

MEASURES WHEN BUDGET PRESENTED TO PARLIAMENT. AHSAN CITED, AMONG OTHER MEASURES, REDUCTION OF FOODGRAIN SUBSIDY AND BROADENING OF BASE OF DIRECT TAXATION, AND NOTED THAT "EXACT NATURE OF...FISCAL MEASURES IN SUPPORT (OF DEVALUATION) WILL BE KNOWN WHEN NATIONAL BUDGET IS PRESENTED". CHAIRMAN DIAMOND ON JUNE 3 WAS MORE EXPLICIT, TELLING DONORS, "OTHER MAJOR STEPS IN SUPPORT OF DEVALUATION HAVE BEEN DISCUSSED WITH THE IMF...THE GOVERNMENT AND THE IMF HAVE AGREED THAT THE MAJOR ANNOUNCEMENTS...WILL BE MADE WHEN THE GOVERNMENT PRESENTS TO A PREDICATION THAT FURTHER FISCAL MEASURES WOULD BE TAKEN "IN DUE COURSE".

B. DISAPPOINTING BUDGET. THE BUDGET CONTAINS NO RPT NO MAJOR ANNOUNCEMENTS. NO SUBSIDIES WERE REDUCED. NO MAJOR NEW TAXES WERE LEVIED. THE TAX BASE WAS NOT BROADENED, BUT SOMEWHAT NARROWED. A COMPILATION OF FINANCIAL ESTIMATES FOR 64 PUBLIC SECTOR ENTERPRISES WAS RELEASED WITH THE BUDGET, BUT NO RPT NO MEASURES TO IMPROVE PUBLIC SECTOR FINANCIAL MANAGEMENT OR

EFFICIENCY WERE ANNOUNCED.

C. FOODGRAIN SUBSIDY. HOWEVER, ON THE PLUS SIDE, ACCORDING TO THE IMF RES REP, THE BUDGET VERY CLEARLY IMPLIES A BDG DECISION TO RAISE THE ISSUE PRICE OF FOODGRAINS DURING THE COURSE OF THE YEAR, AN UNDERTAKING CONTAINED IN THE LETTER OF INTENT TO THE IMF. RES REP POINTS TO AMOUNT SHOWN AS "SUBSIDIES FROM REVENUE ACCOUNT" IN THE SECTION CONCERNING STATE TRADING IN FOODGRAINS, WHICH IS ESTIMATED FOR FY 76 AT JUST OVER 100 CRORES, 10 PERCENT ABOVE THE REVISED ESTIMATE FOR 74/75. WITH REASONABLE ASSUMPTIONS CONCERNING THE AMOUNT AND COST OF THE GRAIN TO BE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 DACCA 03466 01 OF 02 160536Z

DISTRIBUTED DURING THE YEAR, DEVALUATION WOULD HAVE NECESSITATED BUDGETING THIS ITEM SOME 57 PERCENT HIGHER, IF THE ISSUE PRICE WERE TO REMAIN UNCHANGED.

D. TAX CHANGES. ALTHOUGH NONE OF THE MINOR TAX CHANGES IN THE BUDGET REFLECTED RECOMMENDATIONS AND SUGGESTIONS PUT FORWARD IN THE IMF TAX STUDY COMPLETED A YEAR AGO, IMF REP TELLS US BDG MAY 28 REQUESTED IMF TO PROVIDE EXPERTS TO REVIEW WHAT AMOUNTED TO EVERY ASPECT OF THE TAX SYSTEM.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 DACCA 03466 02 OF 02 160550Z

10

ACTION NEA-10

INFO OCT-01 EA-06 ISO-00 AGR-05 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 PA-01 PRS-01 IO-10 L-03 H-02 /106 W

----- 070787

R 160315Z JUL 75

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 7440

INFO AMEMBASSY KATHMANDU

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

LIMITED OFFICIAL USE SECTION 2 OF 2 DACCA 3466

A FURTHER DISAPPOINTMENT WAS THE ABSENCE OF ANY TAX LEVIED ON AGRICULTURAL INCOME. BUDGET CONTINUES TAX MORATORIUM ON AGRICULTURAL INCOME. BANGLADESH BANK GOVERNOR, INDICATING ISSUE WAS DISCUSSED WITHIN BDG, SAID HE ARGUED FOR FLAT TAKA 30 PER ACRE TO BRING IN AT LEAST "SOME CASH", AND OFFERED OPINION THAT PRESIDENT'S DECISION NOT TO LEVY AG TAX NOW WAS INFLUENCED BY FACT THAT FOLLOWING MEASURES IN EFFECT TAX AGRICULTURE ALREADY:

- (I) DEMONETIZATION, WHICH HAD HIT SURPLUS FARMERS WHO TRADITIONALLY HOLD THEIR FUNDS AS CASH;
- (II) STEPPED UP FOOD PROCUREMENT DRIVE WHICH ACQUIRED RICE FROM SURPLUS FARMERS AT SOMETHING LIKE 60 PERCENT OF THE MARKET PRICE; AND
- (II) LAST YEAR'S REDUCTION OF SUBSIDIES ON SEVERAL AGRICULTURAL INPUTS, INCLUDING FERTILIZER.

CLEARLY, FORTHCOMING MAJOR POLITICAL DECISIONS-- REDISTRICTING AND COMPULSORY COOPERATIVES--MUST HAVE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 DACCA 03466 02 OF 02 160550Z

BEEN FACTORS DISCOURAGING INTRODUCTION ANY FURTHER
CHANGES IN RURAL SCENE AT THIS TIME.

E. BUDGET CONTINUES ANTI-INFLATIONARY POLICY
CONSISTENTLY PURSUED SINCE LATE LAST YEAR WITH NO
DEFICIT FINANCING AND FAR SMALLER RISE (13 PERCENT)
IN REVENUE EXPENDITURES THAN IN DEVELOPMENT OUTLAYS
(81 PERCENT). (BOTH FIGURES UNADJUSTED FOR INFLATION
OR DEVALUATION.)

F. WHILE WE HAVE ONLY A GLIMPSE (FROM THE BANGLA-
DESH BANK GOVERNOR) OF WHAT HAPPENED WHEN THE BUDGET
WAS REVIEWED BY THE PRESIDENT, IT IS CLEAR THAT, AT
A MINIMUM, AGRICULTURAL TAX PROPOSALS WERE REJECTED.
MORE SIGNIFICANTLY, NO DECISION WAS TAKEN NOW TO
REDUCE FOOD GRAIN SUBSIDIES. THE STATEMENTS AT PARIS
(PARA 2(A) ABOVE) WERE PROBABLY BASED IN PART SIMPLY
ON OVER-OPTIMISM AND POSSIBLY ON A MISUNDERSTANDING
OF THE CLOSELY-HELD IMF POSITION AND THE BDG UNDER-
TAKINGS IN ITS LETTER OF INTENT. IN THAT LETTER THE
BDG AGREED ONLY TO TAKE SEVERAL OF ITS VARIOUS FISCAL
MEASURES INCLUDING REDUCTION OF SUBSIDIES DURING THE
COURSE OF 1975/76. THUS, DESPITE THE DISAPPOINTING
ABSENCE OF NEW MAJOR FISCAL MEASURES IN THE BUDGET,
IMF REPRESENTATIVE BELIEVES THE BUDGET CONSISTENT WITH THE
LETTER OF INTENT.

3. HOW WILL BUDGET TURN OUT? BUDGET IS CONSERVATIVE
IN THAT REVENUES WILL ALMOST CERTAINLY EXCEED ESTI-
MATES WITH THUS MORE FUNDS AVAILABLE FOR EXPENDITURE,
HOPEFULLY ENTIRELY ON THE DEVELOPMENT PROGRAM. (HOWEVER,
PRICE LEVEL PROBLEM DISCUSSED PARA 1 (B) ABOVE ALSO
SUGGESTS THAT RECURRING EXPENDITURES HAVE BEEN UNDER-
ESTIMATED.)

FIRST, THE VALUE OF IMPORTS IN FY 76 ON WHICH
DUTIES AND TAXES ARE LEVIED WAS ESTIMATED TO INCREASE
"BY AT LEAST 35 PERCENT" OVER FY 75. GIVEN LIBERAL
NEW IMPORT POLICY (DACCA 3347), DUTIABLE IMPORTS MAY
WELL INCREASE BY CONSIDERABLY MORE THAN THIS PROPORTION.

SECONDLY, ESTIMATE OF "NET RESOURCES AVAILABILITY
FROM GROSS DISBURSEMENTS FROM FOREIGN LOANS AND GRANTS"
HAD BEEN PLACED AT 70 CRORES (ROUGHLY \$5500 MILLION),
WHICH CLEARLY DOES NOT REPRESENT NOT TAKE INTO ACCOUNT POST
PARIS AID GROUP MEETING OUTLOOK. TAKA 700 CRORE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 DACCA 03466 02 OF 02 160550Z

FIGURE COULD VERY WELL BE EXCEEDED, PARTICULARLY IF
ADDITIONAL FOOD GRAIN ASSISTANCE IS RECEIVED FROM
WESTERN DONORS AND OTHER ASSISTANCE FROM EASTERN
EUROPEAN AND ARAB DONORS. THE COMBINED EFFECT OF
THESE TWO LIKELY SOURCES OF ADDITIONAL REVENUES COULD
PERMIT AN INCREASE IN THE SIZE OF THE ANNUAL DEVELOP-
MENT PLAN FROM THE BUDGET ESTIMATE OF 950 CRORES TO

PERHAPS 1150 CRORES (ALMOST \$900 MILLION). (SEE SEPTTEL ON ANNUAL DEVELOPMENT PLAN.) IN SUM, IT SHOULD BE AN EASY BUDGETARY YEAR.

4. DEFENSE SPENDING. TOTAL BUDGET FOR ALL SECURITY FORCES (UNADJUSTED FOR INFLATION OR DEVALUATION) ACCOUNTS FOR 23.5 PERCENT OF NON-DEVELOPMENTAL EXPENDITURES, SLIGHTLY DOWN FROM LAST YEAR'S 26 PERCENT (A-38, JULY 2, 1974). TOTAL FY 76 BUDGET FOR ALL SECURITY FORCES INCLUDING DEFENSE SERVICES, JATIYO RAKKHI BAHINI (NATIONAL SECURITY FORCE), AND POLICE ESTIMATED AT TAKA 1.4 BILLION, 15 PERCENT ABOVE FY 75 BUDGET ESTIMATES (B.E.) AND 9 PERCENT ABOVE FY 75 REVISED ESTIMATE OF TAKA 1.3 BILLION. (FY 75 B.E. WERE 52 PERCENT ABOVE FY 74 B.E.) WHILE DEFENSE SERVICES RISE ONLY 5.6 PERCENT FROM 710 TO 750 MILLION, RAKKHI BAHINI IS BUDGETED IN FY 76 AT 227 MILLION, 50 PERCENT ABOVE THE FY 75 B.E. OF TK. 151 MILLION.

5. BUSINESS AND PRESS REACTION TO THE BUDGET. IN CONTRAST TO THEIR VIEWS ON DEMONETIZATION AND DEVALUATION, MOST OF THE BUSINESSMEN WE HAVE TALKED TO ARE PLEASED WITH FY 76 BUDGET. THIS FAVORABLE REACTION IS BASED PRIMARILY ON THE TAX MEASURES ANNOUNCED WITH THE BUDGET WHICH FAVORED UPPER AND MIDDLE INCOME EARNERS AND PROPERTY OWNERS. THE TAX BREAKS WHILE NOT SUBSTANTIAL IN TERMS OF REVENUE CHANGES TO THE BDG MAY AMOUNT TO AS MUCH AS A 20 PERCENT INCREASE IN AFTER-TAX INCOME FOR THESE INCOME GROUPS ACCORDING TO THE U.K. HIGH COMMISSION HERE. IN FOREIGN CONCLUSION DEPARTMENT, GOVERNMENT-CONTROLLED PRESS DUTIFULLY HAILED BUDGET.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 DACCA 03466 02 OF 02 160550Z

6. CONCLUSION: BUDGET DID NOT LIVE UP TO EXPECTATION, WITH NEITHER MAJOR TAX CHANGES OR REDUCTION OF FOODGRAIN OR OTHER SUBSIDIES. DEVELOPMENT EXPENDITURES REMAIN UNCHANGED IN REAL TERMS. HOWEVER, THE BDG REMAINS COMMITTED BY LETTER OF INTENT TO IMF TO REDUCE SUBSIDIES OVER YEAR TO COME AND, BARRING UNSATISFACTORY AMAN HARVEST, SUCH REDUCTIONS ON FOODGRAIN SUBSIDIES MAY BE EXPECTED. FURTHERMORE, CONTINUED EFFORT TO AVOID DEFICIT FINANCING IS WELCOME, WHILE DONOR GENEROSITY AT PARIS AID GROUP MEETING VIRTUALLY ASSURES FAR HIGHER THAN BUDGETED DEVELOPMENT EXPENDITURES. THE RATIONALE OFFERED BY THE BANGLADESH BANK GOVERNOR, PLUS THE MOVE TOWARD COMPULSORY COOPERATIVES, ARE QUITE SUFFICIENT TO EXPLAIN THE PRESIDENT'S DECISION NOT TO IMPOSE AN

AGRICULTURAL TAX, BUT THE ABSENCE OF ANY SIGNIFICANT
TAX CHANGES REMAIN DISAPPOINTING. FURTHERMORE, A
SECOND IMF TAX STUDY (PARA 2(D) ABOVE) WOULD DOUBTLESS
TAKE TIME. IN SUM, FUTURE ACTIONS TO INCREASE DEVELOP-
MENT EXPENDITURES AND REDUCE SUBSIDIES, IF TAKEN AS
WE EXPECT, WOULD TURN DISAPPOINTING BUDGET ACCOUNCEMENT
INTO FAR MORE POSITIVE FISCAL RECORD OVER YEAR, BUT
IT APPEARS WE WILL HAVE TO WAIT UNTIL FY 77 FOR MAJOR
TAX CHANGES.
BOSTER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, ECONOMIC CONDITIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975DACCA03466
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750245-0223
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750748/aaaabqot.tel
Line Count: 341
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 DACCA 3112, 75 DACCA 3385
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 14 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 MAY 2003 by ShawDG>; APPROVED <15 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANGLADESH BUDGET: ANALYSIS AND COMMENT
TAGS: EFIN, EAID, BG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006